

**ARIZONA LIFE AND DISABILITY  
INSURANCE GUARANTY FUND**

**2017 ANNUAL REPORT**

This Annual Report provides financial information and a summary of the activities of the Arizona Life and Disability Insurance Guaranty Fund ("ALDIGF") for calendar year 2017. The information herein is general nature and is not legal advice.

## REPORT FROM THE CHAIR OF THE BOARD OF DIRECTORS

On behalf of the Arizona Life and Disability Insurance Guaranty Fund ("ALDIGF"), I am pleased to present the 2017 Annual Report. This report is prepared and submitted pursuant to A.R.S. § 20-691.

The ALDIGF Board of Directors met two times in 2017, on May 19, and again on November 14, the Annual Meeting, at which officers were elected and standing committees were appointed.

ALDIGF was activated for two new insurer insolvencies in 2017, Penn Treaty Network America Insurance Company ("Penn Treaty") and American Network Insurance Company ("ANIC"), a wholly owned subsidiary of Penn Treaty. Both companies were domiciled in Pennsylvania and primarily wrote long term care insurance. The companies were ordered into liquidation on March 1, 2017 after being under an order of rehabilitation for an extended period. In addition to paying long term care claims of Penn Treaty and ANIC, ALDIGF paid claims in 2017 with respect to Executive Life Insurance Company (life insurance), Life and Health Insurance Company of America (long term care), Lincoln Memorial Life Insurance Company (life insurance), Meritus Mutual Health Partners (health insurance), National States Insurance Company (long term care), and Standard Life Insurance Company of Indiana (annuities).

Member insurers are subject to two types of assessments from ALDIGF: Class A and Class B. Class A assessments provide for administrative and operating expenses of ALDIGF. Class B assessments provide for the payment of policyholder claims. The ALDIGF Board approved a Class A assessment in the amount of \$3 million on November 8, 2016 at the 2016 Annual Meeting. A Class B assessment in the amount of \$4 million for Penn Treaty and ANIC was approved on November 14, 2017 at the 2017 Annual Meeting. Both assessments were called in 2017.

ALDIGF is a member of and works closely with and through the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA") with respect to multi-state insurer insolvencies. Representatives of ALDIGF are active on NOLHGA insolvency task forces and committees. Membership and participation in NOLHGA helps ALDIGF achieve efficiencies in performing its statutory duties that would not be possible if ALDIGF acted on its own.

ALDIGF uses all of the tools at its disposal to protect Arizona resident policyholders in the unfortunate event of insurer insolvency, acting with transparency and due diligence in regard to its finances and operational matters.

Respectfully,

Tod D. Lashway, CLU, ChFC, LUTCF, CLTC  
Chair of the Board of Directors

## **DESCRIPTION OF THE FUND AND ITS BOARD OF DIRECTORS**

The Arizona Life and Disability Insurance Guaranty Fund ("ALDIGF") was created in 1977 by the Arizona legislature. ALDIGF is within the Arizona Department of Insurance and is governed by A.R.S. §§ 20-681 through 20-695.

The purpose of ALDIGF is to protect Arizona resident policyholders and their beneficiaries in the event of the insolvency of a member insurance company that is licensed to write life, annuity or accident and health business in Arizona.

ALDIGF is responsible for continuing insurance coverage for Arizona policyholders, including paying claims and other policy benefits, subject to the terms of the policy and statutory limitations on benefits.

When a court finds that an insurance company is insolvent and orders that it be liquidated, a receiver takes control of the insurer under the court's supervision and liquidates the insurer's assets. ALDIGF becomes a creditor of the insolvent insurer to the extent of the payments and benefits it provides to policyholders. If estate assets allow, the receiver may advance money to the affected guaranty funds/associations to assist in the payment of claims. ALDIGF typically recovers a portion of the costs of providing policyholder benefits from the estate of the insolvent insurer. If additional funds are needed to pay policyholder claims and benefits, ALDIGF's Board of Directors may levy an assessment on member insurance companies.

An insurance company becomes a member insurer of ALDIGF by operation of law upon becoming licensed to write a line of business for which coverage is provided by ALDIGF. Some insurance companies are excluded from membership in ALDIGF, such as fraternal benefit societies, service corporations, prepaid dental plans and health care service organizations.

ALDIGF is governed by a nine member Board of Directors appointed by the Governor upon recommendations made by the Director of Insurance. Day to day operations are managed by an Executive Director and support staff.

The Board of Directors typically meets twice each year, in May and again in November. The November meeting is the annual meeting at which officers are elected and standing committees are appointed. Additional meetings may be called by the Chair of the Board if necessary. All meetings are open to the public. However, the Board may go into executive session to discuss certain matters, such as the financial condition of a member insurer or to confer with legal counsel.

## **BOARD OF DIRECTORS**

### **Chair**

Tod D. Lashway, ChFC, CLU, LUTCF, CLTC  
The Guardian Life Insurance Company  
Scottsdale, AZ  
Current term expires August 27, 2019

### **Vice Chair**

Mark A. Haydukovich, ChFC, CLU, CPA, FLMI, CFA  
President and Chief Executive Officer  
Oxford Life Insurance Company  
Phoenix, AZ  
Current term expires August 27, 2020

### **Secretary/Treasurer**

John R. Mathews, Esq., CPA  
Consultant (Retired from Allstate Insurance Companies)  
Lake Bluff, IL  
Current term expires August 27, 2020

Robert C. Corn, Esq.  
Manager, Regulatory Relations  
Mutual of Omaha  
Omaha, NE  
Current term expires August 27, 2018

Elizabeth A. Heisler  
Actuary  
Northwestern Mutual Life Insurance Company  
Milwaukee, WI  
Current term expires 08/27/2018

Michael Hickey, Esq.  
Vice President, Government & Industry Relations  
Metropolitan Life Insurance Company  
Kensington, MD  
Current term expires August 27, 2018

Germaine L. Marks, Esq.

Vice President  
Prudential  
Phoenix, AZ  
Current term expires August 27, 2020

Randi F. Reichel, Esq.  
UnitedHealth  
Baltimore, MD  
Current term expires August 27, 2018

John J. (Jay) Sheehy III  
AIG  
New York, NY  
Current term expires August 27, 2019

## **STANDING COMMITTEES**

### **EXECUTIVE COMMITTEE**

Tod D. Lashway (Chair)  
Mark A. Haydukovich  
John R. Mathews  
Robert C. Corn

### **AUDIT COMMITTEE**

John R. Mathews (Chair)  
Elizabeth A. Heisler  
Germaine L. Marks

### **INVESTMENT COMMITTEE**

Robert C. Corn (Chair)  
Michael Hickey  
Randi F. Reichel

## **GOVERNANCE**

ALDIGF's activities and operations are governed by its enabling act, which may be found at A.R.S. §§ 20-681 – 20-695, a Plan of Operation, developed by the Board and approved by the Director of Insurance, and an Investment Policy, also developed by the Board and approved by the Director of Insurance. The Board has also adopted an Anti-Trust Compliance Policy. The policies may be amended from time to time as the Board deems it necessary and appropriate.

**ARIZONA LIFE AND DISABILITY  
INSURANCE GUARANTY FUND**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENT  
BALANCES AND INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED DECEMBER 31, 2017**

**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND  
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DECEMBER 31, 2017**

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**John C. Todd II, P.C.**  
**Certified Public Accountants**

Member  
American Institute of CPAs  
Arizona Society of CPAs  
Government Audit Quality Center

21630 North 19th Avenue  
Suite B-5  
Phoenix, Arizona 85027  
Telephone: (623) 581-8117  
Fax: (623) 581-8906  
E-Mail: cpas@jctodd2cpa.com

**Independent Auditors' Report**

The Board of Directors  
Arizona Life and Disability Insurance Guaranty Fund

**Financial Statements**

We have audited the accompanying statement of cash receipts, disbursements, and changes in cash and investment balances of Arizona Life and Disability Insurance Guaranty Fund (Fund), a division of the Arizona Department of Insurance, as of and for the year ended December 31, 2017, and the related notes to the financial statement, which collectively comprise the Fund's basic financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to error or fraud.

**Auditors' Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash receipts, disbursements and changes in cash and investment balances of Arizona Life and Disability Insurance Guaranty Fund as of and for the year ended December 31, 2017, in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprises the Fund's basic financial statement. The management's discussion and analysis and schedule of administrative expenses on pages 5-7 and on page 17, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statement. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2018, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

John C. Todd II, P.C.

Phoenix, Arizona  
May 1, 2018

**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2017**

This section of the Arizona Life and Disability Insurance Guaranty Fund's (the "Fund") annual report presents management's discussion and analysis of the Fund's financial performance during the year ended December 31, 2017. This section of the report should be read in conjunction with the Fund's financial statements.

**FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal and calendar year, the Fund reported an ending Fund Balance of \$24,471,931.
- The Fund was activated for two new insolvency cases in 2017. Penn Treaty Network America Insurance Company ("Penn Treaty") and its subsidiary, American Network Insurance Company ("ANIC"), were ordered into liquidation on March 1, 2017. Both companies were domiciled in Pennsylvania and primarily wrote long term care insurance.
- Two assessments on member companies were levied in 2017. An assessment of \$4 million was levied on the Disability Account for Penn Treaty and ANIC. An assessment of \$3 million was levied on all member insurers for the Administrative Account. Both assessments were approved by the Board of Directors on November 14, 2017. No refunds were issued to member insurers in 2017.
- Total receipts for the year were \$433,946:
  - Total receipts from receivership and early access distributions for the year were \$27,819.
  - Income on the Fund's investments for the year was \$311,030 (net of amortization/accretion and unrealized gain/loss).
  - Premium receipts for the year were \$66,717.
  - Assessment receipts for the year were \$28,380
- Total disbursements for the year were \$6,163,777:
  - The Fund paid \$5,422,812 in claims in 2017:
    - \$1,307,607 in life insurance claims.
    - \$4,104,514 in disability insurance claims.
    - \$10,691 in annuity claims.
  - The Fund paid administrative expenses of \$740,965 in 2017.
    - Includes \$267,818 in NOLHGA dues and quarterly assessments for insolvency activity.

**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2017**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Fund is established within the Arizona Department of Insurance pursuant to Arizona Revised Statutes (A.R.S.) § 20-683. The Fund's governing body (Board of Directors) is appointed by the Governor upon recommendations made by the Director of Insurance. Accordingly, the Fund is considered a governmental organization for accounting, financial reporting and auditing purposes.

The basic financial statements for the Fund are presented on the modified cash basis of accounting. Under the modified cash basis, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. Changes in the market value of investments and reductions in premiums/discounts relating to investments held by the Fund are also included. In addition, all items including the acquisition of furniture and equipment are expensed as paid and receivables, prepaid items, payables and accrued expenses are not reflected. Accordingly, the Fund's financial statements are not intended to present its financial position and the results of its operations in conformity with U.S. generally accepted accounting principles.

This report consists of three parts—the Independent Auditor's Report, Management's Discussion and Analysis (this section) and the Financial Statement. The Financial Statement consists of a Statement of Cash Receipts, Disbursements and Changes in Cash and Investment Balances.

**FINANCIAL ANALYSIS OF THE FUND**

The Fund Balance decreased by \$5,729,831 from the prior year to \$24,471,931. Receivership and early access distributions decreased \$2,184,975 from the prior year to \$27,819. Premium receipts increased by \$3,971 from the prior year to \$66,717. Income earned on the Fund's investments increased \$129,466 from the prior year to \$311,030. Assessment receipts increased by \$28,380 from the prior year to \$28,380. Total receipts decreased by \$2,023,158 from the prior year to \$433,946.

Total disbursements for 2017 were \$6,163,777, an increase of \$5,139,383 from the prior year. Claims payments were \$5,422,812, an increase of \$5,066,824 from the prior year. Administrative expenses in 2017 were \$740,965, an increase of \$72,559 from the prior year. NOLHGA quarterly assessments billed to the Fund for 2017 were \$267,818, compared to \$298,745 in 2016.

The Fund maintains four accounts pursuant to A.R.S. § 20-683, a Disability Insurance Account, a Life Insurance Account, an Annuity Account and an Administrative Account. As of December 31, 2017, the balance in the Disability Insurance Account was \$10,942,938, a decrease of \$3,993,761 from the end of the prior year. The balance in the Life Insurance Account was \$3,156,316, a decrease of \$1,307,607 from the end of the prior year. The balance in the Annuity Account was \$10,620,759, a decrease of \$10,691 from the end of the prior year. The balance in the Administrative Account was (\$248,082), a decrease of \$417,772 from the end of the prior year.

**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2017**

**CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS**

The Fund was activated for two new impaired/insolvent insurers in 2017. The estimated liabilities to Arizona policyholders for these two insolvent insurers as of March 1, 2017 are \$198,834,000 on an undiscounted basis. The Fund has opted to pay its policyholder liabilities on an annual basis. Accordingly, the Fund expects to levy assessments annually on the Disability Account until the liabilities are retired.

The Fund has sufficient assets in its Life Account and Annuity Accounts to pay the remaining liabilities of insurer insolvencies that have occurred to date which affect those accounts.

**CONTACTING THE FUND'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Fund's finances. If you have questions about this report or need additional financial information, please contact the Fund's Executive Director at 2910 North 44<sup>th</sup> Street, Suite 210, Phoenix, Arizona 85018, (602) 364-3863 or [msurguine@azinsurance.gov](mailto:msurguine@azinsurance.gov).

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**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH AND INVESTMENT BALANCES  
YEAR ENDED DECEMBER 31, 2017**

Cash Receipts:	
Receivership distributions	\$ 27,819
Assessments	28,380
Premium payments	66,717
Interest income	<u>541,855</u>
Total cash receipts	664,771
Cash Disbursements:	
Disability insurance claims	4,104,514
Life insurance claims	1,307,607
Annuity claims	10,691
Administrative expenses	<u>740,965</u>
Total cash disbursements	6,163,777
Cash disbursements in excess of cash receipts	(5,499,006)
Amortization/accretion of investments	(203,052)
Net realized/unrealized gain (loss) on investments	<u>(27,773)</u>
Total change in investments	<u>(230,825)</u>
Total changes in cash and investments	(5,729,831)
Cash and investment balance at January 1, 2017	<u>30,201,762</u>
Cash and investment balance at December 31, 2017	<u><u>\$ 24,471,931</u></u>

See accompanying notes to basic financial statements.

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**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND**  
**NOTES TO BASIC FINANCIAL STATEMENT**  
**DECEMBER 31, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity - The Arizona Life and Disability Insurance Guaranty Fund (Fund), a division of the Arizona Department of Insurance, was established by the Arizona legislature in 1977 to provide funds for the payment of contractual obligations under certain life, disability and annuity insurance contracts of insolvent insurance companies in accordance with *Arizona Revised Statutes, Title 20, Chapter 3, Article 7*.

The Fund is managed by a nine-member board of directors appointed by the Governor of the State of Arizona and is under the immediate supervision of an Executive Director. In order to provide the monies necessary to carry out the powers and duties of the Fund, the board of directors determines the amount and timing of assessments to be made upon member insurers. Member insurers are those individuals or companies authorized to transact the covered types of insurance in the State of Arizona.

Basis of Accounting – Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statement. The financial statement is presented on the modified cash basis of accounting, which is special purpose framework of accounting. Under the modified cash basis, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. Changes in the fair value of investments and reductions in premiums/discounts relating to investments held by the Fund are also included. In addition, all items including the acquisition of furniture and equipment are expensed as paid and receivables, prepaids, payables and accrued expenses are not reported. Accordingly, the financial statement is not intended to present financial position and results of operations in conformity with U.S. generally accepted accounting principles.

Cash and Investments – Cash includes amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the Fund. Investments are carried at fair value. Changes in fair value and amortization of premiums/discounts relating to investments held by the Fund are reported as changes in investment balances.

Income Taxes – The Fund operates as a tax-exempt organization for federal and state income tax purposes under Section 115 (1) of the Internal Revenue Code; however, a determination letter has not been requested from the Internal Revenue Service.

Subsequent Events – The Fund has reviewed all subsequent events through May 1, 2018, which was the date the financial statements were available to be issued.

**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND**  
**NOTES TO BASIC FINANCIAL STATEMENT**  
**DECEMBER 31, 2017**

**NOTE 2 – CASH AND INVESTMENTS**

The board of directors, pursuant to Article 4E of the plan of operation, authorizes the Fund to invest monies in obligations issued or guaranteed by the United States or any of its senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; corporate bonds; interest earning investments such as share, checking, saving accounts or certificates of deposits.

Custodial Credit Risk – Cash – Custodial credit risk is the risk that in the event of bank failure, the Fund's deposits may not be returned to the Fund. The Fund does not have a deposit policy for custodial credit risk. At December 31, 2017, the carrying amount of the Fund's deposits was \$73,641 and the bank balance was \$76,349. The bank balances as of December 31, 2017, were fully insured by federal depository insurance. At December 31, 2017, the Fund had \$60,497 on deposit with the Arizona State Treasurer.

Investments – The Fund's investments at December 31, 2017 were as follows:

Corporate bonds	\$ 13,294,929
U. S. Treasury bills	8,320,878
U. S. Government agency securities	1,498,352
Municipal bonds	534,217
U. S. Government money market mutual funds	689,417
	<u>\$ 24,337,793</u>

Credit Risk-Investments - As of December 31, 2017, the Fund's investments were rated as follows pursuant to Standard & Poor's rating system:

Rating	Fair Value	Percentage of Holdings
AAA	10,806,706	46%
AA+	1,042,548	4%
AA	400,014	2%
AA-	1,681,945	7%
A+	3,097,495	13%
A	2,073,881	9%
A-	1,516,290	6%
BBB+	1,931,404	8%
BBB	1,098,093	5%

The Fund's policy regarding credit risk sets the minimum credit quality at BBB-/Baa-/BBB-, equivalent to a class rating of 2 by the Securities Valuation Office of the National Association of Insurance Commissioners.

**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND**  
**NOTES TO BASIC FINANCIAL STATEMENT**  
**DECEMBER 31, 2017**

**NOTE 2 – CASH AND INVESTMENTS (CONT'D)**

Concentration of Credit Risk-Investments – The Fund's investment policy requires investments to be no more than 5 percent invested with any one issuer, with the exception of the United States Government and its agencies or instrumentalities. The Fund has no formal policies regarding credit risk.

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund has no formal policy regarding custodial credit risk.

Interest Rate Risk – The Fund's investment policy requires an average duration to not exceed 1 year. The maximum final maturity on an individual investment shall not exceed 3 years. At December 31, 2017, the Fund had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity in Months
Corporate bonds	\$ 13,294,929	22.7
U. S. Treasury bill	8,320,878	24.9
U. S. Government agency securities	1,498,352	23.9
Municipal bonds	534,217	24.9
	<u>\$ 23,648,376</u>	

**NOTE 3 – ACCOUNT BALANCES**

The Fund maintains four restricted accounts for purposes of reporting cash receipts and disbursements and investment income. In accordance with Arizona State statutes, the Fund may transfer amounts between accounts. The balances for each account as of December 31, 2017 are as follows:

Annuity account	\$ 10,620,759
Disability account	10,942,938
Life account	3,156,316
Administrative account	<u>(248,082)</u>
	<u>\$ 24,471,931</u>

**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND**  
**NOTES TO BASIC FINANCIAL STATEMENT**  
**DECEMBER 31, 2017**

**NOTE 4 –COMMITMENTS AND CONTINGENT LIABILITIES**

Operating Lease – The Fund rents office space from the State of Arizona, Department of Insurance. Although the Fund has no formal lease agreement related to this office space, the Fund may not relocate without prior authorization from the State. Rent expense on this office space for 2017 was \$8,300.

Future Claims Payments – Two affiliated long-term care insurers, which have been in receivership pursuant to an Order of Rehabilitation since 2009, were ordered into liquidation on March 1, 2017. During the year ended December 31, 2016, the Fund's future payments related to these insolvencies were determined. Accordingly, the Fund will be responsible for payments of approximately \$199 million over the remaining life of the policies. Future commitments under the policies are as follows:

Year ending December 31:	
2018	\$ 13,152,601
2019	10,435,036
2020	10,678,976
2021	11,213,114
2022	11,450,962
Thereafter	<u>130,684,630</u>
Total commitments	<u>\$ 187,615,319</u>

Assessments on member companies are expected to be levied to fund the future estimated commitments. In November 2017 the Fund authorized a \$4 million assessment to its member companies to cover policyholder liabilities and a separate \$3 million assessment to cover administrative expenses. The Fund expects to assess member insurers annually to cover policyholder liabilities until all the liabilities have been retired.

Litigation – In the course of performing its statutory duties with respect to impaired insurers, the Fund is subject to litigation. It is the opinion of management that such matters will not have a significant or adverse impact on the Fund's financial position.

**NOTE 5 – RETIREMENT PLAN**

Plan Description – Fund employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at [www.azasrs.gov](http://www.azasrs.gov).

**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND  
NOTES TO BASIC FINANCIAL STATEMENT  
DECEMBER 31, 2017**

**NOTE 5 – RETIREMENT PLAN (CONT'D)**

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

<b>ASRS</b>	<b>Initial membership date:</b>	
	<b>Before July 1, 2011</b>	<b>On or after July 1, 2011</b>
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and the Fund was required by statute to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll.

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**ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND  
SCHEDULE OF ADMINISTRATIVE EXPENSES  
YEAR ENDED DECEMBER 31, 2017**

NOLHGA dues and assessments	\$ 267,818
Staff salaries and employee related expenses	190,201
Claims and adjusting services	195,806
Investment fees	31,420
Rent	8,300
Other operating expenses	19,496
Travel	7,533
Financial audit service	5,775
Legal services	7,750
Banking service fees	6,866
Detection and prevention of insolvencies	-
	<hr/>
	<u>\$ 740,965</u>

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